

Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-02

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XMB-04 OPIC-06 LAB-04 SIL-01 /110 W

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R 190820Z AUG 75

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 2603

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY THE HAGUE

USMISSION EC BRUSSELS

UNCLAS SECTION 1 OF 2 TOKYO 11540

PASS TREASURY DEPT

E.O. 11652: N/A

TAGS: EFIN, JA, FR

SUBJECT: FRENCH AMBASSADOR TOKYO REBUTS B. NOSSITER ON FRENCH
MONETARY VIEWS

FOLLOWING IS TEXT OF LETTER FROM FRENCH AMBASSADOR BRUNET TO
JAPAN TIMES NEWSPAPER. IT IS IN REBUTTAL TO ARTICLE PUBLISHED
AUG 18 BY WASHINGTON POST REPORTER BERNARD D. NOSSITER
ENTITLED "FRENCH WANT FIXED MONEY RATES." NO DOUBT SAME
ARTICLE APPEARED IN EUROPEANPRESS. COPY OF LETTER SUPPLIED
FINATT BY FINANCIAL ATTACHE, FRENCH EMBASSY:

QTE ON AUGUST 11TH, THE JAPAN TIMES PUBLISHED AN ARTICLE
ENTITLED: "THE FRENCH WANT FIXED ONEY RATES" BY MR. NOSSITER,
OF THE WASHINGTON POST WHO, BY THE WAY, HAPPENS TO BE A FRIEND
OF MINE. IN VIEW OF THE WORLDWIDE DEBATE NOW GOING ON THE
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FUTURE OF THE INTERNATIONAL MONETARY SYSTEM, I BELIEVE,
AFTER HAVING READ THIS ARTICLE, THAT IT MIGHT BE USEFUL

IF I WERE TO MAKE A FEW REMARKS WHICH I HOPE WILL HELP
YOUR READERS TO A BETTER UNDERSTANDING OF OUR PROPOSALS
REGARDING MONETARY MATTERS.

QTE 1 I WOULD FIRST LIKE TO SAY THAT WITH REGARD TO
ECONOMIC THOUGHT AND POLICY MAKING, MOST IMPARTIAL
OBSERVERS SEEM TO THINK THAT WE HAVE CONTRIBUTED TO
PROGRESS IN THIS FIELD. SINCE J.B. SAY, FRANCE HAS
PRODUCED SOME GREAT LIBERAL ECONOMISTS SUCH AS WALRAS,
JEAN MARCHAL, FRANCOIS PERROUX, RAYMOND BARRE, PIERRE-
PAUL SCHWEITER, ETC.....MOREOVER, CONSIDERING THE
RESULTS ACHIEVED BY OUR ECONOMY, THE GROWTH RATE OF WHICH
HAS BEEN FASTER DURING THE PAST 20 YEARS THAN THAT OF
ANY OTHER WESTERN COUNTRY EXCEPT JAPAN, THE QUALITY OF
THE "MANAGERS" AS WELL DOES NOT SEEM INFERIOR IN FRANCE
TO WHAT IT IS IN OTHER COUNTRIES.

QTE 2/ DO THE FRENCH AUTHORITIES MAKE A SHOW OF "PLEASANT
ECCENTRICITY," AS MR. NOSSITER PUTS IT, WHEN THEY CALL
FOR A RETURN TO FIXED RATES? IT MUST BE REMEMBERED THAT
THE BRETTON WOODS SYSTEM CREATED AFTER THE WAR AND WHICH
WAS PREDICATED UPON FIXED EXCHANGE RATES, WORKED VERY
SATISFACTORILY FOR 25 YEARS AND WAS INSTRUMENTAL IN
BRINGING ABOUT A REMARKABLE GROWTH OF THE ECONOMIES AND
TRADE OF THE SO-CALLED WESTERN COUNTRIES (WHICH OF COURSE
INCLUDE JAPAN). MOREOVER, THE MONETARY REFORM PLAN,
PRESENTED BY THE SO-CALLED "GROUP OF '6" AND APPROVED
DURING THE LAST ANNUAL MEETING OF THE I.M.F. BY ALL
MEMBER STATES, LAYS DOWN THE PRINCIPLE OF A RETURN TO
FIXED EXCHANGE RATES AND ALLOWS VARIABLE OR FLOATING
EXCHANGE RATES ONLY "UNDER SPECIAL CIRCUMSTANCES SUBJECT
TO THE APPLICATION OF PARTICULAR RULES AND UNDER THE
SUPERVISION OF THE I.M.F."

QTE UNDER THESE CONDITIONS, IT IS DIFFICULT TO MAINTAIN
THAT FRANCE IS ISOLATED IN THIS MATTER WHEN IT CALLS ON
COUNTRIES TO AGREE TO A PRINCIPLE - THE RETURN TO STABLE
(BUT OF COURSE ADJUSTABLE WHEN THE NEED ARISES) EXCHANGE
RATES - WHICH HAS BEEN AGREED UPON BY ALL THE MEMBERS
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STATES OF THE I.M.F. AS WELL AS BY INTERNATIONAL INSTI-
TUTIONS OF REPUTE - LIKE THE COMMISSION OF THE E.E.C.
AND THE BANK FOR INTERNATIONAL SETTLEMENTS. IS IT NOT
RATHER THE UNITED STATES WHICH, BY ADVOCATING THE LEGALI-
ZATION OF FLOATING RATES WITHOUT ANY LIMIT OF TIME, HAVE
MADE A STEP BACKWARD FROM THE COMPROMISE PROJECT THAT
WAS SHAPED EARLY THIS YEAR?

QTE 3/ WHY DO WE CONSIDER THE RETURN TO STABLE RATES OF
EXCHANGE NECESSARY TODAY?

QTE THE FRENCH GOVERNMENT DOES NOT DISPUTE THE FACT THAT
THE GENRALIZED FLOATING OF CURRENCIES HAS SERVED ITS
PURPOSE DURING A TRANSITORY PHASE, AND HAS HELPED IN
RESTORING THE BALANC OF ECONOMIES DEEPLY UPSET BY DOUBLE
DIGIT INFLATION ANDAN ENORUUS INCREASE OF THE RICE
OF OIL. BUT THE LACK OF DISCIPLINE AND OF STABILITY
IN INTERNATIONAL MONETARY RELATIONS MAKES FOR A CONTINUED
CRISIS IN OUR ECONOMIES IN SEVERAL WAYS:
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-THE INSTABILITY OF EXCHANGE RATES FUELS INFLATION
BECAUSE SINCE 1971 FREE REIN HAS BEEN GIVEN TO THE
CREATION OF MONEY AT AN INTERNATIONAL LEVEL; TO PUT IT
ANOTHER WAY THE DISCIPLINE ENFORCED BY A FIXED EXCHANGE
RATE SYSTEM ON THE MANAGEMNT OF NATIONAL CURRENCIES IS
SIMPLY NO LONGER THERE. IT SEEMS TO ME VERY REMARKABLE
IN THIS CONTEXT THAT, ALTHOUGH THE WESTERN WORLD IS
SUFFERING FROM THE LONGEST RECESSION KNOWN SINCE THE

WAR, INFLATION RATES IN ALL NATIONS EXCEPT WEST GERMANY STILL REMAIN AT LEVELS AROUND OR OVER 10 PERCENT;

- THE ABSENCE OF ANY MONETARY SYSTEM IMPEDES ECONOMIC RECOVERY BECAUSE IT MAKES THINGS VERY DIFFICULT FOR THE VARIOUS ECONOMIC AGENTS (CONSUMERS, INVESTORS, TRADERS). WE ALREADY KNOW THAT ACCORDING TO THE LATEST GATT ESTIMATES, THE GROWTH OF WORLD TRADE IN 1975 WILL BE PRACTICALLY NIL FOR THE FIRST TIME IN MANY YEARS;

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-EXCHANGE RATES ARE MOVING IRRATIONALLY. ACCORDING TO MOST FINANCIAL OBSERVERS, THE FALL OF THE DOLLAR DURING THE FIRST MONTHS OF 1975 WAS NOT ECONOMICALLY JUSTIFIED AND THE PRESENT SUDDEN RISE OF THE AMERICAN CURRENCY, ALTHOUGH HELPFUL TENDS TO INCREASE THE CONFUSION AMONG OPERATORS AND WORLD PUBLIC OPINION;

-FINALLY IT IS OBVIOUS THAT MONETARY DISORDER DOES NOT ENCOURAGE A DIALOGUE BETWEEN INDUSTRIALIZED NATIONS AND DEVELOPING COUNTRIES RICH IN OIL AND NATURAL RESOURCES, BECAUSE OF THE UNCERTAINTY IT INSPIRES ON THE FUTURE EVOLUTION OF THE LATTER'S FINANCIAL RESOURCES.

QTE 4/ THE PRESIDENT OF THE FRENCH REPUBLIC HAS SUGGESTED THAT THIS PROBLEM SHOULD BE DISCUSSED AT THE HIGHEST LEVEL BY HEADS OF STATES AND GOVERNMENT OF THE GREAT INDUSTRIALIZED COUNTRIES BECAUSE HE BELIEVES THAT THE MOMENT HAS COME TO CARRY INTO THE POLITICAL ARENA A DEBATE WHICH IS BOGGING DOWN AT THE LEVEL OF EXPERTS, AND TO BRING ABOUT A FEELING OF AWARENESS, DESIGNED TO END THE ATMOSPHERE OF CRISIS PRESENTLY AFFECTING INTERNATIONAL ECONOMIC RELATIONS. THERE IS NO DOGMATISM IN THE ATTITUDE OF FRENCH AUTHORITIES AND THEY ARE OF COURSE WILLING TO NEGOTIATE WITH THEIR PARTNERS THE CONDITIONS UNDER WHICH A RECONSTRUCTION OF THE INTERNATIONAL MONETARY SYSTEM, BASED UPON A GRADUAL RETURN TO STABLE EXCHANGE RATES, COULD BE ACHIEVED. THE EXISTENCE IN EUROPE OF AN AREA OF MONETARY STABILITY (THE SO-CALLED "SNAKE") AND THE MAINTENANCE OF A MORE OR LESS STABLE EXCHANGE RELATIONSHIP BETWEEN THE DOLLAR AND THE YEN GIVE US HOPE THAT SUCH AN AGREEMENT BETWEEN THE MAJOR COUNTRIES IS NOT IMPOSSIBLE TO REACH. UNQTE.
HODGSON

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